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July 31, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: FDIC RIN 3064-AD95 (BASEL III NPR)

First Financial Bank has carefully reviewed and considered the BASEL III NPR and Standardized Approach NPR. We were represented at the Community Bank Informational Session conducted by the FDIC in Atlanta on July 26, 2012, to discuss these matters. This was a very informative meeting and the information was clearly presented. We have carefully studied the impact of these NPRs on our Bank, community banking, and overall banking in general.

While there are numerous concerns within the NPRs, our focus has been placed on two items of the greatest concern as discussed below. In addition, we have general comments on problems with the approach that has been taken. These matters are discussed in a final section below.

Definition of Common Equity Tier 1

The NPR proposes the inclusion of net unrealized gains and losses on available-for-sale debt and equity securities in the Common Equity Tier 1 Capital. We believe it is not proper to consider the fluctuation in market value of investment securities in determining the amount of qualifying Capital. More specifically, at a minimum, government-secured investments should be exempted in the computation of market value.

First, fluctuations in market rate are not permanent reductions in Capital. Since movements in market value are not permanent, predicting such movements would be difficult and inaccurate. The Capital Plan for a Bank would be much less meaningful. Trying to hit this moving target would cause poor economic decisions strictly for the sake of meeting Capital requirements that are constantly moving, both up and down. Secondly, there is no ultimate credit risk in government-secured investments to impair Capital. Third, Banks are required to have proper sensitivity and asset/liability management policies, with monitoring and interest rate risk management, to address this issue.

## Capital Conservation Buffer

The NPRs propose the addition of a Capital Conservation Buffer. If a bank meets the "adequately capitalized" Capital requirement, the Buffer seems overly conservative. To the extent that the Buffer is used as additional protection for loan reserves and write-downs of ORE to market value, it is excessive. GAAP and regulations have been established to be in agreement, and require adequate levels of protection. A bank should be able to maximize its use of Capital, without overly conservative restrictions, to serve customers while remaining safe and sound.

If the Capital Conservation Buffer is included in some form in the final rulemaking, there should be an exemption to allow for dividend payments by Subchapter S banks to stockholders for the ultimate purpose of paying income taxes. Rules harmful to Sub S banks should not be made at this time, after prudent economic decisions were made previously by community banks under existing regulations.

## General Observations

We understand and respect that the Regulators must protect the FDIC funds, as well as maintain a safe and sound banking system. A stable and reliable banking system is vital to our Country. Both large banks and community banks play important roles in providing financial services to the citizens. However, there are many significant differences in the operations of large banks when compared to community banks. Regulations should differ. One size does not fit all. The negative impact of the same regulations for large and small banks, on residential lending and small business lending by community banks, is extremely harmful to the economic recovery, particularly in small and rural communities. We strongly urge Regulators to make rules for community banks that are independent of larger banks. Community banks could possibly be insulated from problems that befall the banks that are "too big to fail".

Previous bailouts of banks that are "too big to fail" had nothing to do with community banking, however community banks suffered and many were allowed to fail rather than being bailed out. A more fundamental approach may have been to give incentives to community banks to make small business loans, residential loans, etc. to jump-start activity on a grassroots level. The opportunity for such action still exists, but the NPRs are even more restrictive on community banks.

We believe that most of the countries represented in the BASEL Committee on Banking Supervision do not have community banking in their countries, as we know it in the United States. The NPRs may be appropriate for large banks, but different requirements should be applied to community banks that are more specific to their operations. The separate regulations should be prepared by the United States, since community banking is based upon the American way. Communities throughout America are dependent upon the success of community banks, and vice versa.

We are appreciative of the opportunity to make comments. Thank you for your consideration of our thoughts as you move through this difficult process.

Sincerely,

B. K. Goodwin III

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Chairman, CEO, and President
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